

Message Text

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ORIGIN EUR-12

INFO OCT-01 NEA-06 ISO-00 TRSE-00 EB-04 COME-00 FRB-01

SP-02 AID-05 NSC-05 RSC-01 CIEP-01 SS-15 STR-01

OMB-01 CEA-01 CIAE-00 INR-05 NSAE-00 XMB-02 OPIC-03

LAB-01 SIL-01 /068 R

DRAFTED BY NEA/IAI:EWBIZIC & EB/IFD/OM:MINNIES

APPROVED BY NEA:HHAUNDERS

TREASURY:JGORLIN (SUBS)

EB/CBA:JNESVIG (SUBS)

NEA/IAI:WBSMITH II

EB/IFD:PHBOEKER (SUBS)

NEA/BLC:JKMATTER (INFO)

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R 191912Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

INFO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 230787

E.O. 11652: GDS

TAGS: EFIN, IS, UK, US

SUBJECT: ISRAEL BRITISH BANK, LTD. (LONDON) FAILURE

REF: STATE 223937 AND TEL AVIV 5319

1. SUMMARY. NORTH CAROLINA NATIONAL BANK CHAIRMAN STORRS INFORMED EB DEPASSTSECY BOEKER OCTOBER 17 THAT PROPOSED RESCUE OPERATION REPORTED IN STATE 223937 HAS NOT MATERIALIZED BECAUSE NEGOTIATIONS BETWEEN BANK OF ENGLAND (BOE) AND BANK OF ISRAEL (BOI) HAVE BROKEN DOWN. NCNB OFFICERS PLAN RETURN TO ISRAEL OCTOBER 25. THEY HAVE REQUESTED DEPT. OBTAIN EMBASSY'S ASSISTANCE IN VERIFYING STATUS OF BOE/BOI NEGOTIATIONS AND SETTING UP APPOINTMENTS WITH SENIOR GOI AND JEWISH AGENCY OFFICIALS. END SUMMARY.

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2. NORTH CAROLINA NATIONAL BANK OFFICIALS CALLED ON EB

DEPASSTSECY BOEKER OCTOBER 17 TO REQUEST DEPT'S ASSISTANCE IN IBB/LONDON AFFAIR. CHAIRMAN STORRS (PLEASE PROTECT BOTH SOURCE AND INFORMATION) TOLD BOEKER THAT NCNB HAD BEEN INFORMED BY IBB/LONDON DEPUTY SPECIAL MANAGER WHEATLEY THAT PROPOSED RESCUE OPERATION FOR IBB/LONDON CREDITORS HAS NOT MATERIALIZED BECAUSE NEGOTIATIONS BETWEEN BOE AND BOI HAVE BROKEN DOWN. ACCORDING TO INFORMATION AVAILABLE TO NCNB, BOE MIGHT HAVE BEEN WILLING TO PUT UP DOLS 10 MILLION ON ITS OWN ACCOUNT TO REDEEM CREDITORS' CLAIMS AS WELL AS ASSIST ISRAELI PARTICIPATION BY POSSIBLY EXTENDING LOAN OF ABOUT DOLS 10 MILLION TO BOI. REPORTEDLY, BOI

DECLINED TO PARTICIPATE IN RESCUE ON GROUNDS THAT THIS WOULD BE ADMISSION OF BOI RESPONSIBILITY TO CREDITORS. BOTH CENTRAL BANKS HAVE, THEREFORE, TOLD IBB/LONDON SPECIAL MANAGERS TO PROCEED WITH LIQUIDATION.

3. NCNB OFFICERS STRESSED THAT THEY DO NOT IGNORE POSSIBLE BOE RESPONSIBILITY TO IBB/LONDON CREDITORS AND INTEREST OF BOE IN SATISFACTORY SETTLEMENT OF CLAIMS. HOWEVER, NCNB FEELS BOE UNWILLINGNESS TO UNILATERALLY ASSIST CREDITORS IN FAILURE OF AUTHORIZED BRITISH BANK UNDERSCORES RELATIONSHIP BOE CONSIDERS EXISTED BETWEEN ISRAELI PARENT BANK AND LONDON SUBSIDIARY. NCNB OFFICERS ADD THAT BANK LEUMI MANAGING DIRECTOR JAPHET (WHO IS ALSO SENIOR ADVISOR TO BOI) TOLD THEM HE KNEW OF IBB DIFFICULTIES FOR SOME TIME AND HAD ADVISED SEVERAL BANKS (INCLUDING SOME LARGE US BANKS) AGAINST PLACING DEPOSITS WITH IBB. DESPITE THAT KNOWLEDGE BANK LEUMI'S US BRANCH EARLIER THIS YEAR GAVE IBB/LONDON CLEAN BILL OF HEALTH FOR NCNB DEPOSITS UP TO SEVERAL MILLION DOLLARS.

4. NCNB OFFICERS PLAN TO RETURN TO LONDON AND THEN ISRAEL (OCTOBER 25) TO DISCUSS IBB/LONDON MATTER WITH GOI OFFICIALS OCTOBER 28. NCNB CHAIRMAN STORRS MET WITH BOI GOVERNOR SANBAR SEPTEMBER 30 IN WASHINGTON, BUT NCNB OFFICERS FEEL ANY FURTHER DISCUSSION WITH SANBAR WOULD BE FRUITLESS. THEY HAVE REQUESTED EMBASSY'S ASSISTANCE IN ARRANGING MEETINGS WITH MINFIN RABINOWITZ AND JUSTICE MINISTER ZADOK. THEY HAVE ALSO SUGGESTED POSSIBILITY OF

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MEETING WITH SOMEONE IN PRIME MINISTER'S OFFICE AND WITH SENIOR OFFICIALS OF JEWISH AGENCY (SAPIR AND DULZIN).

5. ACTION REQUESTED: EMBASSY SHOULD ATTEMPT TO OBTAIN REQUESTED APPOINTMENTS FOR NCNB OFFICIALS AND VERIFY AT APPROPRIATE GOI LEVEL THE REPORTED BREAKDOWN IN BOE/BOI NEGOTIATIONS. IN REQUESTING APPOINTMENTS EMBASSY SHOULD EXPRESS APPRECIATION FOR GOI'S PREVIOUS RECEPTION OF

AMERICAN BANKERS AND POINT OUT THAT NCNB (ACTING AS REPRESENTATIVES OF US CREDITOR BANKS) HAVE INDICATED WILLINGNESS TO ACCEPT LONG TERM ARRANGEMENTS IN ANY PLAN TO RECOVER CREDITORS' CLAIMS AGAINST IBB/LONDON (STATE 223937). EMBASSY MIGHT ALSO EMPHASIZE THAT LACK OF SATISFACTORY RESOLUTION OF THESE CLAIMS COULD CONCEIVABLY DAMAGE ISRAEL'S STANDING IN INTERNATIONAL FINANCIAL CIRCLES. TEL AVIV'S 5886 INDICATES GOI AWARE OF THIS INSOFAR AS ISRAEL CORPORATION SCANDAL IS CONCERNED. FYI - ONE AMERICAN BANK TRADITIONALLY ACTIVE IN FINANCING COMMODITY SALES TO ISRAEL HAS TOLD DEPTOFF THAT IT WILL WEIGH MERITS OF IBB/LONDON CASE WHEN CONSIDERING FUTURE ISRAELI REQUESTS FOR FINANCING. IN CONTEXT OF TALKS ON

ISRAELI INVESTMENT CLIMATE OUTSIDE OFFICIAL AGENDA OF FORTHCOMING JOINT ECONOMIC SUBCOMMITTEE MEETINGS, THE US DELEGATION WOULD EXPECT TO DISCUSS IBB/LONDON AND ISRAEL CORPORATION PROBLEMS. KISSINGER

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